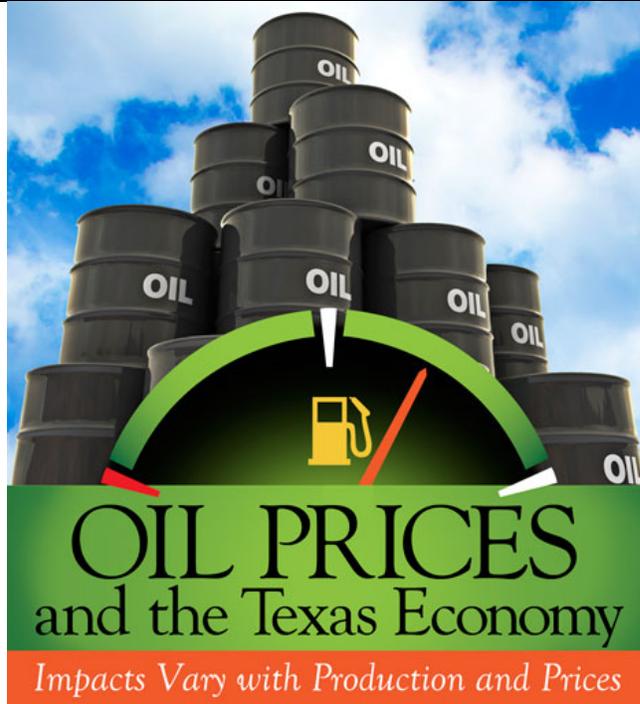


# FISCAL NOTES

A Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts



By Gerard MacCrossan

In January 2012, the price of crude oil topped \$100 for the first time in seven months. Since then, the average price crept up to \$109 in February, then eased back during April, falling below \$95 in mid-May. These high crude prices translate into high gasoline and diesel prices for consumers and businesses.

At this writing, nationwide gasoline prices are averaging about \$3.75 per gallon of regular, although Texas prices are slightly lower. [The Energy Information Administration \(EIA\)](#) forecasts gas prices will continue to remain relatively level through 2013.

Nationally, high oil prices increase costs for businesses and consumers. But for Texas, the nation's largest energy producer, rising prices can have near-term beneficial effects as well.

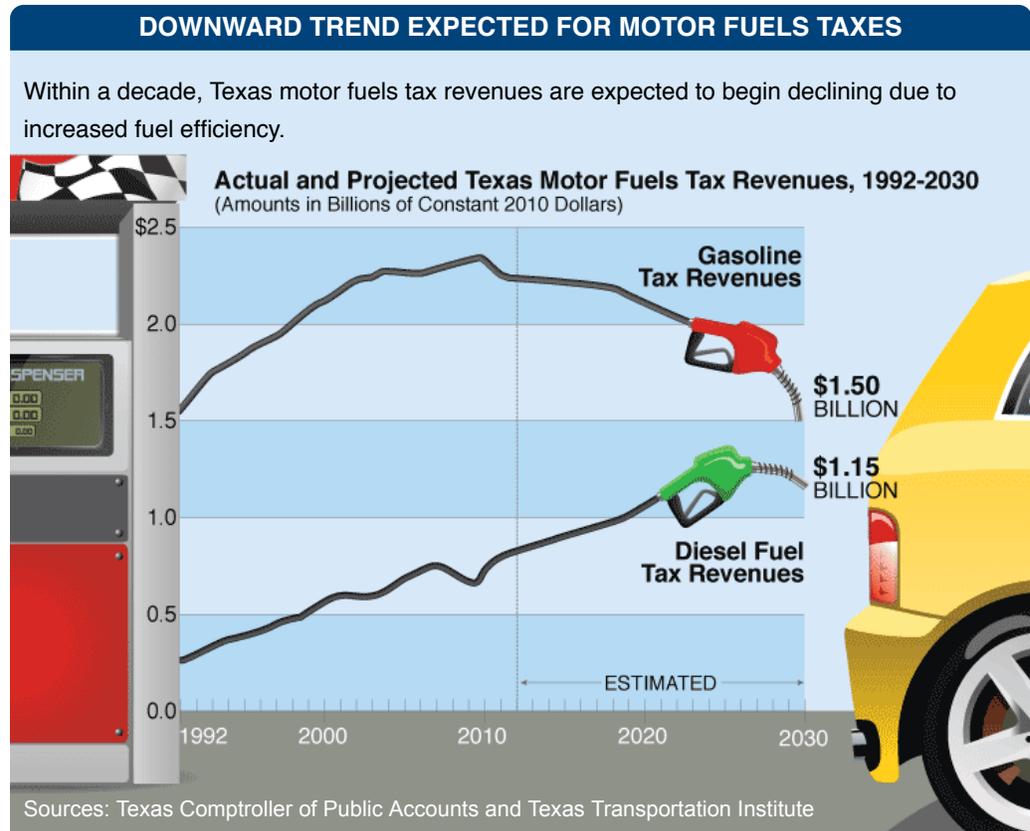
## Oil Prices and State Revenues

**Production taxes:** Higher prices tend to attract more production and thus increase the state's collections of production or "severance" taxes. This, in turn, boosts transfers to the state's Economic Stabilization Fund (ESF), often called the "rainy day



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fund,” which receives most of its funding from oil and natural gas production taxes. The state’s 2012-13 [Certified Revenue Estimate](#) forecasts that \$400 million more will be transferred into the ESF during 2012-13 than during the last biennium, due to anticipated increases in production.



[Download the data. \(CSV\)](#)

**Motor fuels taxes:** Texas drivers pay 38.4 cents in state and federal motor fuel taxes on every gallon purchased — 20 cents in state tax and 18.4 cents in federal tax. But Texas levies gasoline and diesel taxes by the number of gallons sold, not price, so these revenues are not increased by higher prices. In fact, to the extent that higher prices reduce consumer demand, they can reduce state revenue.

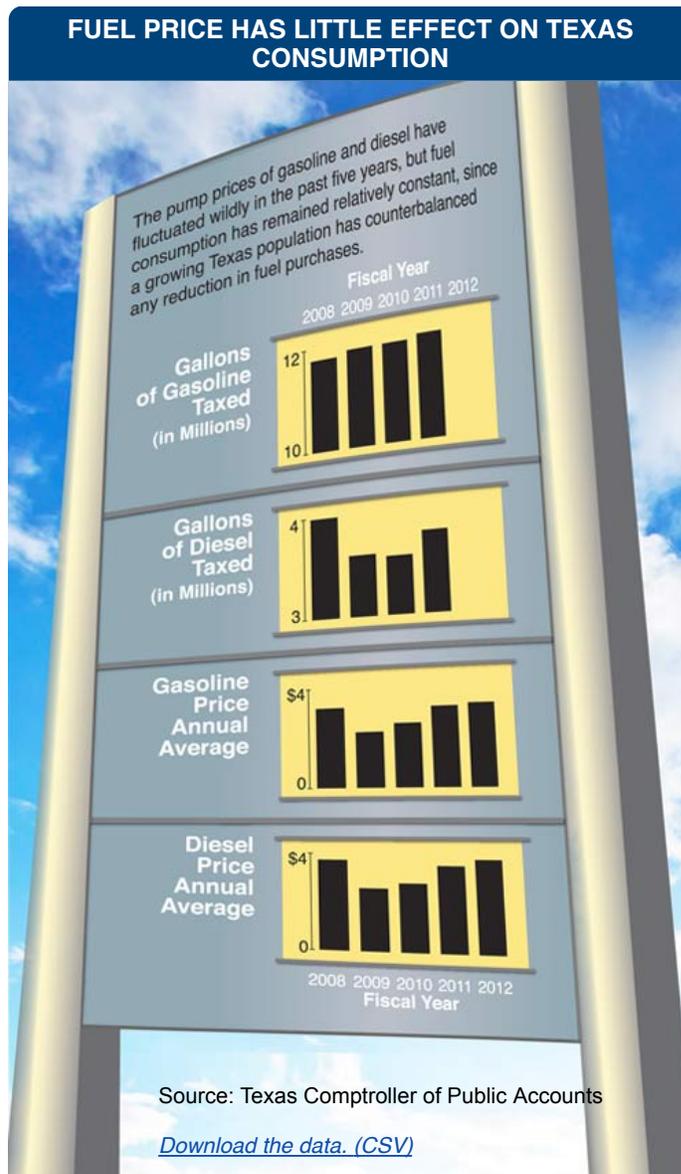
“A fuel price increase by itself has no direct effect on gasoline tax revenue,” says Doug Freer, a revenue analyst for the Texas Comptroller of Public Accounts. “But if higher gasoline pump prices lead to fewer gallons being sold, the price increase could indirectly lead to a decrease in gasoline tax revenue. Thus far, though, Texas’ growing population has counterbalanced some of the price effect on fuel consumption.”

**Sales taxes:** Finally, more production means more purchases of

equipment and vehicles, as well as more jobs, both of which stimulate state and local sales tax revenues. The Texas mining sector, primarily oil and gas production, added 5,700 jobs in January 2012 alone, and 38,000 jobs in the year ending in January.

According to Victoria-based auto dealer Milton Greeson, for instance, the effect of Texas' Eagle Ford Shale production has been extremely positive.

"Our retail sales in 2011 were up 27.5 percent over 2010," Greeson says. "Eagle Ford has stimulated this particular market with production and infrastructure."



## The Fuel Efficiency Factor

Fuel efficiency also affects tax revenues. In recent years, U.S. vehicles' average fuel economy has improved significantly (see ["Improving MPG."](#) June/July 2010 *Fiscal Notes*), due in part to stiffer federal regulations, and higher gas prices spurring greater interest in fuel-efficient vehicles.

"We see a shift in purchasing behavior at the \$3.90 or \$4 mark," says Stephen Cavender, president of Cavender Toyota in San Antonio. "That's when our hybrid vehicles become very sought after."

Due to the state's rapid population growth, more vehicles travel on Texas roads every day. Yet better fuel economy seems to be outpacing population-tied driving increases.

A 2011 report by the 2030 Committee, a panel of business leaders appointed by former Texas Transportation Commission Chair Deirdre Delisi, estimates that the miles traveled by Texas drivers will rise by about 2 percent annually through 2035, but that motor fuels tax revenue will begin declining by 2020, due largely to better fuel efficiency.

Some effects already have been seen. Texas' motor fuels tax revenue increased by less than 1.5 percent from 2007 through 2011, even though the state's population rose by approximately 8 percent.

## Oil Prices and Refining

Refining companies, which employ almost 22,000 Texans, are less than enthusiastic about expensive oil.

"From our point of view, we would much rather see lower oil prices," says Valero Energy Corp. spokesman Bill Day.

Day lists several factors contributing to continuing high oil prices, including tensions concerning Iran, declining refining capacity along the East Coast and the federal government's denial of a permit to build the Keystone XL pipeline from Canada to Texas.

He's skeptical that prices will remain high throughout the year, though.

"Those are external factors, not so much supply and demand," Day says. "There is plenty of supply available. Once the markets adjust to these conditions, prices will moderate."

In fact, he says, due to more fuel-efficient vehicles as well as demographic factors such as the aging population, the U.S. is producing about 600,000 barrels per day of excess gasoline, much of it ultimately shipped abroad.

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Day also notes that new production in Texas is improving market conditions for refiners.

“The effects are starting to be seen,” he says.

At Valero’s Three Rivers Refinery, for instance, which supplies gasoline to the San Antonio area, “we used to use 100,000 barrels per day of oil that was shipped into Corpus Christi and transported 75 miles up a pipeline,” Day says. “Now the majority is coming from a 50-mile radius in the Eagle Ford Shale. It is perfect, a well-priced, dedicated supply of quality oil.”

### **Net Positive or Negative?**

The EIA’s May 2012 Short-Term Energy Outlook forecasts oil prices will average slightly more than \$100 through 2013. That would benefit Texas oil producers — and state government from the resulting tax revenue — because the contributions of the energy industry soften the effects of high oil prices on the state economy.

Even so, the net effect of high energy prices over the longer term could be a burden for Texas businesses and consumers if their increased costs outweigh the economy’s positive gains, says John Heleman, the Comptroller’s chief revenue estimator. It would hit consumers’ wallets, and increase costs for businesses and governments alike. **FN**

*Track oil prices and motor fuel prices in the [Comptroller’s Weekly Economic Outlook](#) update online at [TheTexasEconomy.org](#).*

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